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SUBJECT: CAPITAL BUDGET SNAPSHOT: Dhi-QAR.

¶1. Summary. Dhi Qar Capital budget planning is marked by a mild trend towards transparency and input from local government. While party politics politicized budget negotiations at the Council and Sub-district level, the negotiation of a Provincial Development Plan and Strategy helped focus the early stages of 2009 budget development on the common interest. While capital budget planning is strengthening, capital budget execution has not shown similar degrees of improvement. Although the central government has not released funds in a timely manner or provided clear instructions, the chief weakness affecting budget execution is the lack of expertise in provincial government to manage project implementation and an unfounded confidence that contractors will pick up the slack.

In order for Dhi Qar to make effective use of new tools like GAPTIS, the GOI and its international partners need to shift the focus of technical training from senior levels of government to the persons and offices who are actually charged with developing, monitoring and evaluating projects. End Summary.

¶2. Several weaknesses afflict the Dhi Qar capital budget process. First, the development of a budget remains highly politicized, with decisions by high level and mid level provincial and local government officials unhelpfully sensitive to the party interests that secured their positions. Despite some positive steps over the last few years, budget planning remains a top-down process, with politics rather than technical merit shaping project lists. Second, the PRT has noted no particular improvement in the province's ability to execute projects called for in the budget. In addressing budget planning and implementation, government officials have difficulty in breaking free of past practices, with few skills and fewer tools, equipment or even sensibly organized offices and office procedures with which to innovate.

Dhi Qar Capital Budget Planning: Stumbling in the Right Direction

¶3. Dhi Qar's approach towards preparing provincial capital budgets evolved over the past three years, moving incrementally but perceptibly towards greater transparency and local level participation despite a clear lack of capacity in budget planning. Provincial Director Generals of central ministries shoulder the development of projects lists for their areas of expertise. In the 2006 and 2007 budgets, consolidation of these lists into a draft budget was centralized in the hands of the Provincial Council and its Financial Manager. The politicized negotiations produced a wish list that more accurately reflected the political calculations of the newly elected council members than the technical challenges that needed to be addressed in order to deliver essential services. For the 2008 budget, participation broadened; local government had some limited involvement, political parties tussled over preparations, and their provincial council members prepared rival drafts. In the end, the Provincial Chair (Fadilah) and Governor (ISCI) agreed to submit a common draft. The 2009 draft budget is no less a wish list, but at least it used the Provincial Strategic Plan as a starting point for discussions. In addition, local councils and government officials, including managers of districts and sub-districts, reviewed and commented upon the draft. With Ministries of Planning (MoP) and Finance (MoF) commitments in hand, a final list of 09 projects based on the Provincial Development Plan

is to be handed over to the central government by mid-October. The capital budget process is stimulating the interest and participation of different levels of provincial government and political movements, which suggests that political factions are recognizing their stake in budget discussions and believe that they can influence them.

14. Estimates for projects that make up these lists are ballpark figures based on prior experiences, with little effort invested in capturing the current costs of inputs. The lack of detail in expenditure creates some flexibility to adjust to changes in prices and conditions during implementation but also creates a temptation to cross-fund projects. (Think Popeye: Wimpy Q QI will gladly pay you twice for a burger on Thursday in exchange for a burger on Wednesday.) Project management, maintenance and service costs are not separately calculated in the capital budget or taken into account elsewhere in the provincial budget. The failure to account for maintenance and service costs at the capital budget planning stage remains a serious indicator of inadequate budget skills. The failure to account for maintenance and service costs at the capital planning stage is not so much an indicator of inadequate budget skills, as it is a reflection that governorates receive a substantial amount of capital funds, but only a meager amount of operating funds, and the fact that there is no body of national law or regulations that clearly indicate respective expenditure assignments among the various levels of government. Thus, not only do governorates not have sufficient budget allocations to operate and maintain assets that they construct, it is unclear as to whether they have the legal responsibility to do so. On the plus side, MoPDC investment project request forms have recently begun to require the provision of operating cost information

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Capital Budget Execution: Learning to Recognize Problems

15. In 2009, Dhi Qar will inaugurate its Construction Committee to oversee budget execution and build capacity in provincial government offices. It has a considerable challenge before it. Budget execution capacity has shown no improvement since the 2006 and 2007 budgets. The province lacks the expertise to effectively contract, manage procurement, and monitor projects. Problems are compounded by the lack of clear instructions from MoP and MoF, the failure of the central government to release funds in a timely fashion, the lack of a strategy for monitoring and evaluating budget execution, and the absence of outside expertise with whom to consult. Local contractors have little expertise with which to make up for these weaknesses. The government estimate of the workload to be shouldered by contractors on provincial projects is overly ambitious.

16. Resources and the timing of their availability are other constraints. The 2007 Budget law envisions that between 1-3 percent of the budget may be used for oversight and administration Q an extraordinary low figure by international standards. Although the law stipulates that these funds could only be used to support certain items and activities linked to enforcement, the temptation exists to treat them as discretionary income that may be redirected towards supporting other worthy projects or used for maintenance. Management is also complicated by the lack of multiyear budgeting. Contracting regulations from the MoP and accounting and budgeting regulations from the MoF force the Provinces to execute single-year budgets. (Note: The regulations reflect the provisions of the Financial Management Act, Order No. 95, which does not allow for multi-year budgeting. The problems caused by the inability to do multi-year capital budgets have been offset, to some extent by the following: (1) ability to carry-forward unspent budget allocations that was provided for in the 2007 and 2008 Budget Laws; and (2) the ability to fully fund projects across fiscal years by using Letters of Credit. While many keep multiyear contract data Qoff budgetQ, this process has had the effect of encouraging provinces to focus on projects executable in one year.

Dhi QarQs Capital Budget Execution Record

17. The 2006 capital and supplemental budget, totaling 179 billion and 69 billion ID respectively, authorized 823 projects. While the MoF released the full amount, approximately 11 percent of the capital budget and 21 percent of the supplemental budget has not been disbursed because certain contracts have not been finalized. The 2007 capital and supplemental budgets called for 174 billion and 60 billion ID to undertake 436 projects (later to grow to 475 as ambitiously large projects were broken into constituent parts). However, of the capital budget, the MoF only released 139.2 billion ID. From the monies actually released by MoF, the province disbursed approximately 114 percent and 60 percent of the capital and supplemental budgets respectively. In order to disburse more of the 2007 capital budget than it received, the province tapped the 2008 budget for an additional 16.6 billion ID per MoF instructions and in the hope that all would be sorted out later. In 2008, the MoF and MoP allocated 259 billion and 191 billion to support the capital budget and supplemental budget. By August, 27.1 percent of the 2008 base budget and none of the supplemental budget had been disbursed. (As noted above, a further 6.4 percent of the 2008 capital budget went to the 2007 budget). In 2009, the MoP proposed 396 B for Dhi Qar to fund 2009 activities and outstanding projects from 2008. Of this amount, 30 percent is intended to support province-wide services and 70 percent will be divided among districts and sub-districts in accordance with their population. (Budget figures are forwarded separately.)

Dhi Qar: Growing Provincial Capital and Operating Budgets (rounded to billions ID)

Note: The capital and operating budgets only reflect transfers from the central government and exclude locally-raised revenue.

Budget Operating Capital Supplement Total
Year Budget Budget Budget Budget

2006	6	179	69	254
2007	3	174	60	237
2008	4	259	191	454
2009	N/A	395	N/A	N/A

Bolstering Capacity

18. Various tools and programs have sought to mitigate weaknesses in capital budget planning and execution. Training related to the 2006

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and 2007 budgets was directed at senior level government officials and failed to deliver tools into the hands of personnel actually responsible for day-to-day management. It also produced little additional coordination between provincial, local and central governments. Tools have included IFMIS, which was not extended to the provinces; a simple budget execution tool intended for use in 2008 that was never released; and this simple toolQs next-generation format, GAPTIS, which is being released in the fall of 2008. In its present form, GAPTIS is likely to generate an incomplete view of budget implementation. It is not likely to capture the unofficial Qre-directionQ of funds as implementers informally cross-fund projects, maintenance payments (if any), use of oversight monies or independent sources of income that may complement investment by central government funds. GAPTIS provides an excellent opportunity to link budget execution with the Provincial Strategic Plan process, thereby ensuring information flow on planning and execution between local and provincial governments, and provincial and central authorities, but the needed staff-level training has not occurred to date.

19. Dhi Qar officials would benefit from improved employee skills. The training should link into skill sets needed for each stage of budget design and execution Q identify needs; weigh project feasibility; determine a bill of quantities; prepare total budgets; win approval from MoP and MoF; prepare detailed project estimates;

approval for execution and publication; procurement processes and contract awards; project implementation and management; and progress control and reporting. Expectations for contractors need to be clear and their skill sets honed as well.

A Dhi Qar Budget Crib Sheet

¶10. The Dhi-Qar Provincial Budget is divided into two parts, Operating and Capital budgets. The Operating Budget is primarily salaries, office costs and other limited expenses. The Capital Budget, also called the Investment Budget, is related to projects and other capital improvements. Supplemental budgets may provide additional funds for either budget. Nowhere does the budget contemplate maintenance. Both budgets are transfers from the central government. Neither budget takes into account the small amount of monies generated independently by the provincial government.

OPERATING BUDGET: The Operating Budget of the Provincial Budget funds the Provincial Council and the District and Neighborhood Councils. Each of the councils receives a share of the Operating funds based on the number of members and employees they have along with other expenses. Each District Council has an accountant that receives the money for both that council and the Neighborhood Councils below it. That individual cashes the check from the Provincial Council and disburses the money accordingly. The operating budget also demonstrated problems with execution, paying out 76 percent of its budget in both 2006 and 2007, and a healthier 88 percent of its 2008 budget through October, 2008.

CAPITAL BUDGET: The Capital Budget of the Provincial Budget covers projects that were proposed and approved the year before. Each of the spending units has to prepare its own project lists based on the amount of money it projects to receive for the year. The Provincial Council approves the Governorate lists and submits them to the MoP. The approved project list constitutes the Capital Budget for the year, giving the spending units little room to formally redirect or reprogram investment monies during the fiscal year.

¶11. The MoF releases 20 percent of the allocated Capital budget at the start of the 2008 fiscal year Q essentially a prepayment for projects. The Provincial Council retains these funds until the Governorate formally requests them. A signed contract showing that the funds have been obligated is necessary in order for the Council to issue the check. The MoF will make additional funds available upon request based on the progression of work.

¶12. The 2007 Budget Law defines the amount of resources that may be retained by central and provincial governments to oversee and administer project implementation. The Q1-3 percent ruleQ allows for the use of 3 percent of funds for projects less than 1 billion ID, 2 percent for projects between 1-10 billion ID, and 1 percent for projects of 10 billion ID or more. The law stipulates that the MoP can retain 25 percent of this portion for its role in managing the particular projects. If a hypothetical project is allocated 1 million ID, 30,000 ID could be retained for overhead (3 percent of the total project). With the MoP retaining a quarter of the funds allocated to oversight, 22,500 ID is left to the province. The Provincial Council may decide to retain a portion for their oversight and administration of the project. It would not be unusual for a neighborhood Director General to end up with as little as a quarter of Q1-3Q allocation to administer and oversee the

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project. The law allows the funds to go to the following activities: salaries for personnel involved in project execution; training; project vehicles; computers and cameras; incentives and bonus payments; and media announcements and advertisements.

¶13. COMMENT: The reputation of the provincial government lives and dies by the public's perception of its activities. Despite improvements in basic services and spending on new housing, the

current provincial government is widely viewed as a do-nothing government when it comes to project implementation. With 80 percent of the 2006 and 2007 budgets executed, and close to 30 percent of the 2008 budget, either the Dhi Qar government story is not getting told or the distribution of funds is not producing results. The Dhi Qar PRT will continue to work with provincial leaders to measure and record progress while improving budget execution skills. End Comment.

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